REPORT ON EXAMINATION

OF THE

ADMIRAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

ADMIRAL INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 25 JUNE 2008

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 25TH DAY OF JUNE 2008.

Matt Denn

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

ADMIRAL INSURANCE COMPANY

AS OF

December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 25TH Day of JUNE 2008.

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April 24, 2008

Honorable Thomas R. Sullivan
Secretary, Northeastern Zone (I), NAIC
State of Connecticut
Insurance Department
P.O. Box 816
Hartford, CT 06141-0816

Honorable Scott Richardson
Secretary, Southeastern Zone (II), NAIC
State of South Carolina
Department of Insurance
1201 Main Street, Suite 1000
Columbia, SC 29201

Honorable Merle D. Scheiber
Secretary, Midwestern Zone (III), NAIC
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capitol Avenue
Pierre, SD 57501-3185

Honorable Alfred W. Gross
Chairman, NAIC Financial
Condition Committee
2301 McGee, Suite 800
Kansas City, Missouri 64108-2604

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Blvd
Dover, DE 19901

Dear Commissioners:

In compliance with instructions contained in Certificate of Authority No. 07.010, an examination has been made of the affairs, financial condition and management of the

ADMIRAL INSURANCE COMPANY

hereinafter referred to as “Admiral”, “AIC” or “Company”, incorporated under the laws of the State of Delaware. The examination was conducted at the principal offices of the Company, located at 1255 Caldwell Road, Cherry Hill, New Jersey; and at the offices of Monitor Liability Managers, located at 2850 West Golf Road, Rolling Meadows, Illinois.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2003. This examination covered the three year period of January 1, 2004 to December 31, 2006, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made a part of the workpapers of this examination:

Fidelity Bond and other Corporate Insurance
Welfare and Pension Plans
Contingent Liabilities
All asset and liability items not mentioned

A subsidiary of the Company, Admiral Indemnity Company, was examined concurrently.

HISTORY

Admiral was incorporated on December 5, 1978 under the temporary title of "Admiral Insurance Company of Delaware" under the laws of the State of Delaware to act as the vehicle to effect a change in corporate domicile of the Admiral Insurance Company from Austin, Texas to

Wilmington, Delaware. The Texas insurer was incorporated and began operations on November 26, 1952.

Since October 1, 1979, financial control of the Company has been held by the W.R. Berkley Corporation, of Greenwich, Connecticut. The Company's corporate structure and ownership was unchanged during the current examination period.

CAPITALIZATION

The following changes occurred in the capital accounts since the previous examination as reported in the Company's Annual Statements:

	Preferred and Common Capital Stock	Gross paid in and contributed Surplus	Unassigned (surplus)	Totals
December 31, 2003	$5,600,000	$160,188,452	$385,692,596	$551,481,048
Net income			390,622,886	390,622,886
Net unrealized capital-Gains			302,714,174	302,714,174
Change in nonadmitted Assets			-20,220,572	-20,220,572
Change in net deferred Income taxes			21,909,133	21,909,133
Change in net unrealized foreign exchange			-2,273,889	-2,273,889
Dividends to Stockholders			-133,000,000	-133,000,000
Other Changes (provision for reinsurance			-1,821,350	-1,821,350
December 31, 2006	$ 5,600,000	$160,188,452	$943,622,978	$1,109,411,430

There were 1,000 shares of $1,000 preferred stock and 2,000 shares of $2,300 par value common stock issued and outstanding as of December 31, 2006. The Company's immediate parent is J/I Holding Corporation; the ultimate parent is W.R. Berkley Corporation.

DIVIDENDS TO STOCKHOLDERS

For the period under examination, the Company paid the following dividends:

2004	$ 10,000,000
2005	0
2006	$123,000,000

HOLDING COMPANY SYSTEM

The Company is a subsidiary of the W.R. Berkley Corporation. (Berkley). The ultimate parent is a holding company which, through its subsidiaries, does business in all segments of the property casualty insurance industry.

Berkley reported the following as of December 31, 2006:

	($ in thousands)
Total Assets	15,656,489
Stockholders' equity	3,335,159
Total Revenue (for 2006)	5,394,831
Net Income (for 2006)	699,518

W.R. Berkley reported significant growth in its assets, revenue and stockholders equity during the period under examination. As of December 31, 2003, Berkley reported stockholder equity of $1,682.6 million. The increase to $3,335.2 million as of year-end 2006 represents an increase of 98.2%.

Berkley operates by grouping its companies for management purposes into five segments according to market served: Specialty, Alternative Markets, Reinsurance, Regional, and International. Admiral is the largest unit in the Specialty Segment.

At December 31, 2006, the Company's immediate parent was J/I Holding Corporation. The following abbreviated chart shows the corporate structure as of that date:

W.R. Berkley Corporation
- J/I Holding Corporation
  - **Admiral Insurance Company**
    - Jersey/International Brokerage Corp.
    - Armada Insurance Services, Inc.
    - Admiral Indemnity Company
    - Nautilus Insurance Company
      - Great Divide Insurance Company*
    - Berkley Risk Administrators Company, LLC*
    - Clermont Insurance Company
    - Admiral Risk Insurance Services, Inc.

* = These subsidiaries own additional (non-insurance company) subsidiaries.

MANAGEMENT AND CONTROL

The bylaws require affairs of the Company to be managed by a Board of Directors composed of no less than five (5) members. The Directors are elected by the Shareholders at the annual meeting. Directors are not required to be shareholders.

The Company's Board of Directors consisted of the following members as of December 31, 2006:

Name	Principal Occupation
W. Robert Berkley, Jr.	W.R. Berkley Corp. (WRBC) - Executive VP
James Stephen Carey	Admiral Insurance Company - President and CEO
Martin Marcel Michell	Admiral Insurance Company - Regional VP, Texas office
Eugene George Ballard	W.R. Berkley Corp. - Senior VP, Chief Financial Officer and Treasurer
Ira S. Lederman.	W.R. Berkley Cop. - Senior VP, General Counsel and Secretary
Robert C. Hewett	W. R. Berkley Corp - Senior VP, Excess & Surplus Lines
Scott R. Barraclough	Admiral Insurance Company - Senior VP and Treasurer

The Board of Directors had the following standing committees at December 31, 2006:

Executive	Finance	Underwriting
W. R. Berkley, Jr.	Eugene G. Ballard	James S. Carey
James S. Carey	James S. Carey	Martin M. Michell
Ira S. Lederman	Scott Barraclough	Walter G. Strauss

The following officers were elected and serving as of December 31, 2006:

Name	Office
W. Robert Berkley, Jr.	Chairman of the Board
James S. Carey	President and CEO
Scott Barraclough	Senior V.P. and Treasurer
Daniel MacDonald	Senior V.P. and Secretary
Curtis E. Fletcher	Regional Vice President
William E. Haines	Regional Vice President
Martin M. Michell	Regional Vice President
Raymond H. McDowell	Regional Vice President
John E. Goodloe	Vice President
Robert Morgan	Vice President, Information Technology
Mark R. Brown	Senior Staff Underwriting Officer
R. Blake Dotson	V.P. – Casualty (Austin, TX)
Susan D. Geers	V.P. – Claims
Carolyn J. Grob	V.P. – Professional Liability
Kathleen M. Hocevar	V.P. – Casualty
Christopher J. LaRoche	V.P. – Claims
Sharon S. Murray	V.P. – Professional Liability
Anthony A. Peraine	V.P. – Chief Actuary
Michael R. Petersen	V.P. – Casualty (Seattle)
John Malejko	V.P. – Casualty (Atlanta)
Leah E. Roth	V.P. – Professional Liability (Seattle)
Walter G. Strauss	V.P. – Underwriting
Patricia A. Vreeland	V.P. – Human Resources
Mark E. Watkins	V.P. – Property (Austin)
Sharon Sylvester-Stegg	V.P. – Professional Liability (Atlanta)
James W. Wright	V.P. – Property
James W. Wright, Jr.	V.P. – Property (Seattle)
Douglas R. Keith	Controller

CORPORATE RECORDS

The Certificate of Incorporation and Bylaws of the Company were unchanged during the period under examination. A review of the minutes of the Company's Shareholders, Board of Directors, and Committees of the Board of Directors meetings noted one exception: The Company's investment guidelines were not approved by the Finance Committee as per the Finance Committee Minutes. As such;

It is recommended that the Finance Committee review the Company's investment guidelines on an annual basis and send any revised guidelines to the Company's investment managers.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the four preceding years:

Year	Net Admitted Assets	Policyholder Surplus	Gross Premiums Written	Net Premiums Written	Net Income
2003	$1,514,418,704	$551,481,048	$628,123,345	$561,260,416	$55,883,737
2004	1,902,424,179	728,753,358	638,697,224	597,558,296	119,702,003
2005	2,313,392,443	941,551,227	661,794,123	603,378,083	130,457,538
2006	2,584,972,105	1,109,411,430	659,215,606	604,481,757	140,463,346

As indicated by the above information, the three year examination period witnessed significant increase in the Company's admitted assets, policyholders' surplus and net income, all while there were minimal changes to gross and net premiums written.

- The Company's Policyholder Surplus increased $557,930,382 or 101% during the examination period. This increase is even more significant when considering the fact that the Company did not receive any surplus contributions during the examination period but instead paid $133,000,000 in shareholder dividends.

- The Company reported Net Income of $390,622,886 for the period under examination and also reported $302,714,174 in unrealized capital gains (not illustrated above). An increase in the Policyholder Surplus of a subsidiary insurer, Nautilus Insurance Company, was the leading reason for the unrealized gains.

- The Company achieved the significant net income without significant growth in gross or net premiums written, though some growth is noted. Net Income was generated by a sharp increase in net underwriting gain along with net investment gain. Specifically with regards to net underwriting gains, the Company's net earned premiums increased while losses incurred and loss expenses incurred remained relatively stable.

TERRITORY AND PLAN OF OPERATION

The Company is a licensed insurer in the states of Delaware and New Jersey and writes business on a surplus lines or non-admitted basis in all other states, the District of Columbia, Guam, Puerto Rico, the U.S Virgin Islands, and Canada.

For 2006, the Company reported the following distribution of premiums:

Direct	$627,756,371
Assumed	31,459,235
Ceded	-54,733,849
Net Written Premiums	$604,481,757

A review of the Underwriting and Investment Exhibit in the 2006 Annual Statement indicates the Company's writings are heavily weighted toward the casualty lines of business. For 2006, the Company reported direct premiums in the following lines of business:

Other liability-occurrence	$278,053,533
Other liability-claims made	98,778,547
Products liability-occurrence	99,888,503
Products liability-claims made	17,510,724
Medical malpractice-occurrence	4,147,060
Medical malpractice-claims made	80,094,390
All other lines of business	49,283,614
Total	$627,756,371

The casualty lines accounted for 92.2% of the Company's direct premiums written in 2006. Admiral traditionally writes a significant amount of casualty business, with heavy concentrations in professional liability and products liability. This business is referred to below as the "Admiral Only" operating program. As also noted below, there are two other primary W.R. Berkley units that write business on Admiral Paper: Monitor Liability Managers (Monitor), which primarily writes directors & officers and employment practices liability insurance; and Berkley Medical Excess Underwriters (BMEU), which starting in 2002, began writing medical malpractice business. Also, in 2003, a branch of the Company, Admiral Excess Underwriters (Admiral Excess), began writing casualty business on an excess basis.

The Company’s premiums, by operating program, for 2006 are detailed as follows:

	Direct	Assumed	Ceded	Net Premiums
Admiral Only & Admiral Excess	$547,071,552	$ 500,966	$ 33,335,283	$514,237,235
BMEU	24,041,383	1,708,840	5,154,417	20,595,806
Monitor	44,649,779	532,069	5,226,996	39,954,852
Assumed & Other	11,993,657	28,717,360	11,017,153	29,693,864
Totals	$627,756,371	$ 31,459,235	$ 54,733,849	$ 604,481,757

The Admiral Only business is conducted by branch offices in Austin, Texas; Seattle, Washington; Atlanta, Georgia, and the home office in Cherry Hill, New Jersey. The Company seeks to achieve a strong geographical presence by assigning underwriting responsibility for each state to a specific branch.

The significant growth premium noted during the previous examination has not continued, though modest growth was noted. Management has stated that the growth during the prior examination period resulted from rate increases on existing business and not through the solicitation of new business via new markets or new underwriting programs. Growth did not continue into the current examination period as the market softened and the rates declined. It is the Company's philosophy to write business at adequate premium rates so the Company has declined business if it believes the premium charges are not adequate given the risk being assumed.

Monitor Liability Managers is located in Rolling Meadows, Illinois but operates nationwide. Monitor utilizes the Company and another Berkley insurer for the issuance of business, depending whether the policy is written on an admitted or surplus lines basis. Monitor reported a significant decrease in premiums reported through Admiral for the period under examination. For 2003, Monitor reported $81,290,581 in direct premiums through Admiral; for 2006, direct premiums were $44,649,779, a decrease of 45.1%. Decreases in directors & officers premiums were the main catalyst for the change.

Berkley Medical Excess Underwriters (BMEU) was formed in 2001 and began operations in 2002. BMEU is located in Chesterfield, Missouri and provides medical malpractice excess insurance and reinsurance coverage to hospitals and hospital associations.

Virtually all of the Company's assumed premiums written were assumed from affiliated companies. Specifically, the Company assumed $26,936,340 from Admiral Indemnity Company (an Admiral subsidiary) via a 70% quota share agreement (see the Reinsurance section for additional details). The Company also assumed a small amount of business from Clermont Insurance Company (an Admiral subsidiary). Assumed premiums from this business amounted to $2,757,524 during 2006.

REINSURANCE

For 2006 the Company reported the following distribution of premiums:

Direct	$627,756,371
Assumed from affiliates	32,435,739
Assumed from non-affiliates	(976,504)
Ceded to affiliates	11,223,415
Ceded to non-affiliates	43,510,434
Total Net Premiums Written	$604,481,757

For the examination period, the Company's ratio of net premiums written to gross premiums written was the following:

Year	Ratio
2006	91.7%
2005	91.2%
2004	93.6%

In the years before the prior examination, Admiral typically retained a much lower proportion of gross premiums. For example, in 1999, retained premiums were 60.2% of gross premiums written. In 2003, Admiral retained 89.4% of premiums and the above ratios indicate the continuance of a policy of retaining significant amounts of premium and exposure within the Company.

Assumed

Of the $32,435,739 in premiums assumed from affiliates, $26,936,340 or 83% was represented by a 70% quota share treaty with the Company's subsidiary, Admiral Indemnity Company. The procedure is for Admiral Indemnity to cede business to outside reinsurers first and then Admiral Insurance Company (AIC) assumes 70% of the net retained liability. During the period under examination, AIC began to assume 100% of the net exposure of an affiliate, Clermont Insurance Company, which like Admiral Indemnity, is managed by Clermont Specialty

Managers, located in Hackensack, NJ. The Company assumed premiums of $2,757,524 from Clermont Insurance Company in 2006. The remaining $2,741,875 in assumed premiums from affiliates originates from a long-standing contract with a subsidiary, Nautilus Insurance Company. Nautilus cedes business written in New Jersey and Delaware to Admiral that is written on a surplus line basis.

Ceded

Affiliates: For 2006, the Company's cessions to affiliates consisted of a single fronting program by which Carolina Casualty Insurance Company produces commercial auto insurance that is written on a direct basis using AIC's policy forms. This business is then ceded 100% to Carolina Casualty.

Non-Affiliates: In 2006, the Company reported four books of business or operating programs, each of which is covered by a separate reinsurance program provided by non-affiliated reinsurers.

The four operating programs were:

- "Admiral Only" - the Company's traditional property-casualty business.
- Monitor Liability Managers - writing D&O and professional liability insurance
- Berkley Medical Excess Underwriters - writing medical malpractice coverage.
- Admiral Excess - writing excess insurance above underlying limits.

Admiral Only

For Casualty: For the examination period, the only ceded coverage for the Company's casualty business were the following three layers of Casualty Contingency coverage arranged through W.R. Berkley that also covers most of the Berkley Group companies.

- $3 million excess of the Company’s retention of $ 2 million. ($9 million limit for contract)
- $5 million excess of $5 million ($15 million contract limit).
- $10 million excess of $10 million. ($30 million contract limit).

All layers are 100% subscribed.

For Property: In 2004, a property treaty was executed that provided $5.5 million of coverage in excess of a $2 million retention. This treaty, which remained unchanged in 2005 and 2006, contains a $16 million per occurrence limit. AIC is also covered by three layers of catastrophe property coverage detailed below which also cover most of the companies in the W.R. Berkley Group.

- $7.5 million excess of $7.5 million ($15 million contract limit)
- $15 million excess of $ 15 million ($30 million contract limit)
- $30 million excess of $30 million. ($60 million contract limit)

The Company also has property Terrorism coverage that is triggered by a loss in excess of $100 million.

All layers were 100% subscribed.

Monitor Liability Managers

The reinsurance program covering the Monitor Liability Managers program as of year-end 2006 was as follows:

- Business classified as Primary - For policies providing $5 million or less in coverage:

60% Quota Share coverage is in place with a maximum cession of $3 million. The treaty also provides 90% quota share coverage for Extra Contractual Obligations.

- Business classified as Excess – For policies $5 million or more in coverage:

  60% Quota Share coverage is in place. The treaty also provides 90% quota share coverage for Extra Contractual Obligations.

It should be noted that the above coverage was only 70% subscribed. Beginning in 2004, there is no ceded coverage for Lawyers Liability or Excess business written by Monitor.

Berkley Medical Excess Underwriters

At year end 2006, the Company's business produced by Berkley Medical Underwriters (BMEU) was covered by a 12.5% quota share treaty which provides for a maximum recovery of $2.5 million. It was noted that prior to 2006, the BMEU business was covered by a 50% quota share coverage on the first $10 million of exposure. At December 31, 2006, the BMEU business was also covered by an excess of loss treaty that provided $15 million of coverage in excess of $5 million retention. However, the excess of loss coverage was only 16.5% subscribed.

Admiral Excess Underwriters

In 2003, Admiral began issuing Excess Casualty policies produced by a division of the Company called Admiral Excess Underwriters. At year end 2006, this business was protected by the following ceded reinsurance program:

- For excess policies written with limits of less than $5 million: 30% Quota Share
- For excess policies with limits of $5 million or more: 60% Quota Share

The ceded coverage for the Excess Business provides for a $20 million limit per occurrence and also covers 100% of Extra Contractual Obligations and Excess Limits Liability.

All layers were fully subscribed.

SSAP 62

During this review it was noted that some of the contracts were not in compliance with Section 8C of SSAP 62, "Property and Casualty Reinsurance", which lists the required terms for reinsurance agreements. Among them, Section C states: "the agreement shall constitute the entire contract between the parties…" Some of the contracts reviewed did not contain this language.

> **It is recommended that the Company's reinsurance contracts be amended as needed to comply with SSAP 62, Section 8.C, which requires: "The agreement shall constitute the entire contract between the parties . . ."**

INTERCOMPANY AGREEMENTS

The Company continues to utilize an affiliate, Berkley Dean & Co., Inc. (Berkley Dean), as its investment advisor. Berkley Dean agrees, under an April 1, 1996 agreement, to use its best judgment in advising the Company with respect to the investment and reinvestment of the cash and securities in the portfolios of the Company under the supervision of the Company. For providing these services, Berkley Dean receives an annual fee equal to 1/4% of 1% of the first $10,000,000 and 1/5% of 1% thereafter, of the net asset value of the portfolio at the end of each quarter. The terms of the agreement appear to be fair and equitable.

During the current examination period, effective January 1, 2005 the Company entered into an additional Investment Management Agreement with Steamboat Asset Management, LLC (Steamboat). Per the terms of the agreement Steamboat will provide the Company with investment research and advice. Steamboat is authorized to place orders for the execution of portfolio transactions for the account of the Company but they are required to comply with the Company investment guidelines. Proper reporting for each transaction executed is required. The terms of the agreement and the fees charged appear to be fair and equitable.

On June 11, 1992, the Company entered into a Management Agreement with Monitor Liability Managers, Inc. (Monitor), an affiliate. This agreement, which was most recently amended on January 30, 2002, appoints Monitor as its legal representative and true and lawful attorney for the purpose of producing, underwriting and servicing, on its behalf, liability/indemnity insurance (officers and directors coverage) including the handling and servicing of all claims and losses and legal actions resulting or arising there from. Monitor is subject to the Company's direction and ultimate authority and is reimbursed the actual cost of providing the services including operating expenses such as salaries of Monitor's employees, payroll taxes, and employee health and benefit plans. The agreement was amended on December 1, 1995 to add Monitor Surety Managers, Inc, as a party to the agreement as Admiral's representative to produce, underwrite and service surety bonds. The agreement was amended during the examination period, on January 30, 2002, to reallocate operating expenses. The terms of the agreement appear to be fair and equitable.

Effective January 1, 2000, Admiral entered into an Administrative Services Agreement with its subsidiary, Admiral Indemnity Company (Indemnity) to provide offices, equipment and staff that are reasonable and necessary in the conduct of Indemnity's insurance and investment operations. The terms of the agreement appear to be fair and equitable. Subsequent to the December 31, 2006 examination date the agreement between Admiral Insurance Company and Admiral Indemnity Company was terminated. The services provided under this agreement by Admiral are now provided by another affiliated company, Berkley Underwriting Partners.

On January 1, 2002, Admiral and Berkley Technology Services LLC (BTS) entered into a Computer Service Agreement whereby BTS agrees to provide computer and data processing services as required by the Company. Charges and cost allocation is on a cost basis and payable on a quarterly basis. The agreement was not amended during the current examination period. The terms of the agreement appear to be fair and equitable.

Effective June 30, 2002, Admiral and Berkley Medical Excess Underwriters LLC (BMEU) entered into a Management Agreement whereby the Company appointed BMEU as its legal representative for the purpose of producing healthcare facility, professional liability and excess general liability business on Admiral's behalf. BMEU is responsible for underwriting and servicing the business, including the handling of claims. The agreement was not amended during the current examination period. The terms of the agreement appear to be fair and equitable.

The Company participates in the consolidated Federal Income Tax return of W.R. Berkley Corporation and its subsidiaries. The arrangement is controlled by an April 1, 1980 Tax Allocation Agreement. The agreement, which was most recently amended on September 20, 1989, indicates that the Company's federal income tax liability or refund will be calculated as if a separate federal income tax return had been filed. A review of the Company's 2006 filed tax return and all corresponding transactions between Admiral and W.R. Berkley Corporation was completed. All transactions and interaction with W.R. Berkley were in accordance with the terms of the agreement and timely settlements were made. The terms of the agreement appear to be fair and equitable.

Effective September 6, 2002, Admiral and the ultimate parent, W.R. Berkley, entered into a Standby Line of Credit Agreement whereby Admiral may borrow, from time to time, up to $10 million from Berkley. Admiral did not utilize the Line of Credit at any point during the examination period.

On November 25, 2003 Admiral entered into a Management Agreement with Admiral Risk Insurance Services, Inc. (ARIS) whereby the Company appoints ARIS to produce, underwrite, and service business on its behalf. ARIS will also handle and service claims. The business that ARIS is appointed to produce is casualty excess of loss insurance with a maximum liability of $5,000,000 for each claim. Admiral pays all the "insurance" expenses incurred in the production of business. These expenses include: commissions and brokerage, licenses, legal, audit, losses and loss adjustment expenses. The agreement was not amended during the current examination period. The terms of the agreement appear to be fair and equitable.

On March 15, 2004, the Delaware Insurance Department approved an Underwriting Management Agreement by which Admiral appointed Berkley Risk Solutions (BRS) its attorney for the purpose of producing, underwriting and servicing, on Admiral's behalf, all kinds of finite risk insurance and professional liability business, including the handling and servicing of claims. The authority given to BRS for professional liability is $5 million for any one risk; the authority for finite risk insurance shall be $25 million net financial risk any one transaction. Similarly to the agreement with ARIS (above), Admiral will pay all the insurance/operating expenses incurred in the production of business. This agreement, which became effective during the current examination period, has not been amended since its original effective date. The terms of the agreement appear to be fair and equitable.

On April 1, 2004 the Company entered into a Purchase Agreement with Berkley Holdings Corp. (Berkley Holdings), as approved by the Department. The agreement was created for the purpose of selling the Company’s home office building located in Cherry Hill, New Jersey. The purchase price amounted to $3,900,000. In conjunction with the sale, the Company holds a mortgage on the property in the amount of $3,510,000. The remaining $390,000 was received by Admiral from Berkley Holdings in cash at closing. Simultaneous with the Purchase Agreement, the Company and Berkley Holdings entered into a Lease Agreement whereby Admiral leases back its Home Office from Berkley Holdings. The cost of the lease amounts to approximately $430,000 per year. The terms of the agreement appear to be fair and equitable.

During the review of the transactions related to the Purchase Agreement and the resulting Mortgage Note and Lease Agreement it was noted that the Company's mortgage receivable reported on its Balance Sheet is in excess of 75% of the appraised value of the property subject to the Mortgage Loan. This is in violation of Delaware Insurance Code Section 1323, (a), 1 which states the amount loaned or the aggregate amount of the indebtedness issued upon the security of the mortgage or deed of trust shall not (at the time of the investment), exceed 75% of the fair market value of the real estate. As such;

> **It is recommended that the Company comply with Delaware Insurance Code, Section 1323, (a), 1 and non-admit any portion of a mortgage loan in excess of 75% of the fair market value (appraised value) on all future statutory financial statements.**

The Company owns a subsidiary known as Berkley Risk Administrators Company, LLC (BRAC). BRAC is 100% owned by the Company and during the course of each year Admiral provides certain administrative and accounting services to BRAC including a joint concentration account, which is maintained in conjunction with Admiral's concentration account. It was noted that the Company has not entered into a written agreement with BRAC regarding the services provided. In addition, timely settlements between Admiral and BRAC did not occur. As such;

> **It is recommended that the Company enter into a written agreement with BRAC and any other affiliates for which it provides accounting services. It is further recommended that the Company make regular settlements on its intercompany balances.**

SIGNIFICANT OPERATING RATIOS

For 2006, Admiral reported no Unusual Values for the NAIC IRIS ratios as compared to four Unusual Values reported as of the 2003 examination.

ACCOUNTS AND RECORDS

For the years under examination, the Company's financial statements were audited by the accounting firm of KPMG LLP. KPMG's 2006 audit workpapers were reviewed during this examination and utilized to the fullest extent possible.

As part of the review of the Company's accounts and records multiple claim file reviews were performed for the purpose of ensuring the accuracy of both known claim reserves and paid loss and loss adjustment expense data. The samples were chosen randomly. In each of the samples selected the Company was unable to provide all of the requested claim files. The files not provided are maintained off-site and could not be located. This made it extremely difficult to ascertain the accuracy of the Company's reported claim reserves and their paid loss and loss adjustment expenses. As such;

> **It is recommended that the Company review its procedures for maintaining documents offsite to insure that it can locate and retrieve documents requested during the examination.**

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2006 and the results of operations for 2006 are presented in the following statements:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	$1,187,613,876		$1,187,613,876	2
Preferred stocks	100,306,287		100,306,287	
Common stocks	806,046,397		806,046,397	
Mortgage Loans (first lien)	28,442,863		28,442,863	
Real estate	54,044		54,044	
Cash and short-term investments	125,980,251		125,980,251	
Other invested assets	155,701,666		155,701,666	
Receivable for securities	4,873,758		4,873,758	
Aggregate write-ins for invested assets	461,787		461,787	
Investment income due and accrued	16,923,244		16,923,244	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	89,270,802	$ 9,130,785	80,140,017	
Deferred Premiums (not yet due)	23,916,868	2,056,026	21,860,842	
Reinsurance recoverables on loss and loss adjustment expense payments	21,192,209		21,192,209	
Federal Income Taxes Recoverable	1,811,045		1,811,045	
Net Deferred Tax Asset	65,282,817	33,007,306	32,275,511	
EDP Equipment	1,544,997	1,055,578	489,419	
Furniture and equipment	514,461	514,461	0	
Receivable from parent, subsidiaries and Affiliates	798,889		798,889	
Aggregate Write-ins- Other than Invested	1,382,555	1,382,555	0	
TOTALS	$2,632,118,816	$47,146,712	$2,584,972,105	

LIABILITES, SURPLUS AND OTHER FUNDS

		Notes
Losses & LAE Reserves	$1,077,414,788	1
Reinsurance Payable on Paid Losses	4,047,161	
Commissions Payable	(29,729)	
Other Expenses	6,708,025	
Taxes, Licenses & Fees	688,383	
Unearned Premiums	276,162,102	
Ceded Reinsurance Premiums Payable	11,464,982	
Funds Held by Company under Reinsurance Contracts	2,598,995	
Amounts withheld for the account of others	250,599	
Remittances and Items not Allocated	1,470,843	
Provision for Reinsurance	6,900,750	
Payable to Affiliates	14,326,490	
Payable for Securities	11,757,206	
Aggregate Write-Ins for Liabilities	61,800,080	
Total Liabilities	$1,475,560,675	
Common Capital Stock	4,600,000	
Preferred Capital Stock	1,000,000	
Gross Paid-In and Contributed Surplus	160,188,452	
Unassigned Funds (surplus)	943,622,978	
Surplus as regards Policyholders	$1,109,411,430	
Total	$2,584,972,105	

UNDERWRITING AND INVESTMENT EXHIBIT

Premiums earned		$597,515,772
Losses incurred	$235,904,239	
Loss expenses incurred	118,133,168	
Other underwriting expenses incurred	132,586,556	
Total underwriting deductions		486,623,963
Net underwriting gain		$110,891,809
Net investment income earned		$76,366,955
Net realized capital gains		7,292,988
Net investment gain		$83,659,943
Other income		$ 9,435
Net Income before taxes		194,561,187
Federal and foreign taxes incurred		54,097,841
NET INCOME		$140,463,346

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2005		$941,551,227
Net income	$140,463,346	
Net unrealized capital gains	143,762,833	
Change in net deferred income tax	3,850,389	
Change in non-admitted assets	796,206	
Change in unrealized foreign exchange	86,070	
Change in provision for reinsurance	1,901,359	
Dividends to stockholders	(123,000,000)	
Change in surplus as regards policyholders for the year		$ 167,860,203
Surplus as regards policyholders, December 31, 2006		$1,109,411,430

SCHEDULE OF EXAMINATION ADJUSTMENTS

There were no financial adjustments to the Company's financial statements as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1
Loss & LAE Reserves **$1,077,414,788**

At December 31, 2006, the Company reported the following reserves for Losses and Loss Adjustment Expenses:

Losses

Reported Losses	
Direct	$277,941,342
Assumed	14,763,737
Ceded	33,220,434
Net Reported Losses	$259,484,645
Incurred But Not Reported Losses (IBNR)	
Direct	$479,518,597
Assumed	38,549,372
Ceded	69,339,192
Net IBNR	$448,728,777
Total Reserve - Losses	$708,213,422

Loss Adjustment Expenses (LAE)

Defense and Cost Containment	
Case	$52,207,000
IBNR	270,149,000
Adjusting and Other	46,845,366
Total Reserve - Loss Adjusting Expenses	$ 369,201,366

Distribution of Losses and Loss Adjustment Expenses (LAE) by Program.

As noted throughout this report, Admiral operates through four primary operating programs, with the Loss and LAE experience of each program tracked separately. As of December 31, 2006, Admiral reported the following Loss and LAE reserves for each program:

Admiral Excess & Surplus Lines	$913,064,877
Assumptions from insurers managed	
By Clermont Specialty Managers	43,433,063
Monitor Liability Managers	80,870,446
Berkley Medical Excess Underwriters	40,046,402
Total Losses and LAE	$1,077,414,788

The actuarial firm of INS Consultants, Inc. was retained by the Delaware Insurance Department to conduct an independent review of the Company's Loss and LAE reserves.

As per the actuarial study conducted by INS Consultants, the Company's reserves for Losses and LAE were reasonably stated as of December 31, 2006. Their independent review offered no recommendations and no reserve differences outside the reasonable range.

In addition to the INS review the Company's Loss and LAE data was tested through various reviews of year end 2006 open claim files and claim payments made during the examination period. The reviews were conducted at the Company's Home Office in Cherry Hill, NJ and at Monitor Liability Managers, located in Rolling Meadows, IL.

Note 2
Bonds **$1,187,613,876**

The amount reported above for Bonds agrees with the amount reported on the Company's 2006 Annual Statement.

Invested assets accounted for 93.2% of total admitted assets as of December 31, 2006 and the Company's bond portfolio account for 49.2% of total invested assets. The Company invests primarily in bonds and preferred stocks rated "1" or "2" by the NAIC. The percentage of these investments by NAIC designation are as follows:

NAIC Designation	Percentage of Investment Portfolio
1 - 2	98.8%
3 – 6	1.2%

The review of the Company's bond portfolio noted that the Company maintains several callable bonds. However the Company did not indicate any of the applicable bonds as callable on Schedule D - Part 1 of the Annual Statement as is required by the NAIC Annual Statement Instructions. Therefore;

> **It is recommended that the Company comply with the NAIC Annual Statement Instructions by identifying all callable bonds on Schedule D - Part 1 on all future Annual Statements.**

It was also noted that Company amortizes all of its bonds to the stated maturity date and not to the Call Date as is required by SSAP 26. Therefore;

> **It is recommended that the Company comply with SSAP 26 and amortize all callable bonds to their applicable call date.**

STATUS OF PREVIOUS EXAMINATION RECOMMENDATIONS

The prior examination report as of December 31, 2003, contained the following recommendations.

1. It is recommended that all significant events or courses of action that affect Admiral Insurance Company be discussed and approved by the Board of Directors.

2. It is recommended that only individuals authorized by the Board of Directors of Admiral Insurance bind the Company to reinsurance contracts.

3. It is recommended that the Board of Directors discuss and approve all surplus contributions.

4. It is recommended that Admiral Insurance obtain complete, executed contracts for all reinsurance covering the Company.

As indicated by the recommendations made in the current Report on Examination, all recommendations included in the December 31, 2003 Report have been complied with.

RECOMMENDATIONS

The Company's attention is directed to the following examination recommendations:

1. It is recommended that the Finance Committee review the Company's investment guidelines on an annual basis and send any revised guidelines to the Company's investment managers. (see Corporate Records, page 7).

2. It is recommended that the Company's reinsurance contracts be amended, as needed, to comply with SSAP 62, Section 8.C, which requires: "The agreement shall constitute the entire contract between the parties. . ." (see Reinsurance, page 15)

3. It is recommended that the Company comply with Delaware Insurance Code, Section 1323, (a), 1 and non-admit any portion of a mortgage loan in excess of 75% of the fair market value (appraised value) on all future statutory financial statements. (see Intercompany Agreements, page 19)

4. It is recommended that the Company enter into a written agreement with BRAC and any other affiliates for which it provides accounting services. It is further recommended that the Company make regular settlements on its intercompany balances. (see Intercompany Agreements, page 19)

5. It is recommended that the Company review its procedures for maintaining documents offsite to insure that it can locate and retrieve documents requested during the examination. (see Accounts and Records, page 20)

6. It is recommended that the Company comply with the NAIC Annual Statement Instructions by identifying all callable bonds on Schedule D - Part 1 on all future Annual Statements. (see Notes to Financial Statements, page 26)

7. It is recommended that the Company comply with SSAP 26 and amortize all callable bonds to their applicable call date. (see Notes to Financial Statements, page 26)

SUMMARY COMMENTS

- The Company continues to be owned 100% by J/I Holding Company, which in turn is 100% owned by W.R. Berkley Corporation (the ultimate controlling parent).
- The Company's policyholders' surplus increased $557,930,382 during the period under examination with $390,622,886 being derived from Net Income.
- The Company did not receive any surplus contributions. The Company paid dividends amounting to $133,000,000 during the three year period under review.
- For 2003, Admiral reported $628,123,345 in gross premiums written. For 2006, the Company reported $659,215,606 in gross premiums written, a modest increase of 5.0%. This is significant because though the Company's exposure did not increase significantly during the period, a significant amount of net income was produced. This indicates improved loss and reserve results in conjunction with improved premium rates as respects the risks undertaken by the Company (risk adequate premiums).
- Admiral retained in excess of 91% of its Gross Premiums Written during 2006, indicating the Company's confidence in the exposures/risks taken on by Admiral. This was consistent through the examination period.
- Admiral continues to operate in a somewhat decentralized manner in that there are multiple underwriting divisions that constitute the total exposure retained by Admiral Insurance Company, the legal entity. The primary underwriting units are: Admiral Only (Home Office); Admiral Excess; Monitor Liability Managers; and Berkley Medical Excess Underwriters. (see Territory and Plan of Operations for additional details).
- The Company did not enter into any new markets or exit any existing markets during the examination period.

- As per the actuarial study by INS Consultants and the Loss/LAE data review, the Company's reserves for Losses and LAE were reasonably stated as of December 31, 2006.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods**:

Description	Current Examination	12/31/2003 Examination	Changes Increases (Decreases)
Assets	$2,584,972,105	$1,514,418,704	$1,070,553,401
Liabilities	1,475,560,675	986,809,665	488,751,010
Policyholder Surplus	1,109,411,430	527,609,039	581,802,391

** The amounts reported for the 12/31/2003 examination were the examination amounts and do not agree with the amounts reported in the 12/31/2003 Annual Statement as financial adjustments were made in the prior examination.

In addition to the undersigned, Albert Piccoli, CFE, John White, CFE, and James Blair, Jr., CFE, CPA, (examination supervisor) participated in the examination. The actuarial services of INS Consultants, Inc. are also acknowledged.

Respectfully submitted,

Gregg Bealuk

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Examiner in Charge
Insurance Department
State of Delaware